

SENATE BILL REPORT

2SHB 2130

As Reported by Senate Committee On:
Environment, Water & Energy, March 25, 2009
Ways & Means, April 24, 2009

Title: An act relating to tax incentives for renewable energy manufacturing facilities.

Brief Description: Concerning tax incentives for renewable energy manufacturing facilities.

Sponsors: House Committee on Finance (originally sponsored by Representatives Probst, Jacks, Morris, Morrell, Kenney, Conway and Ormsby).

Brief History: Passed House: 3/09/09, 97-0.

Committee Activity: Environment, Water & Energy: 3/20/09, 3/25/09 [DPA-WM, DNP].
Ways & Means: 4/24/09 [DPA].

SENATE COMMITTEE ON ENVIRONMENT, WATER & ENERGY

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.

Signed by Senators Rockefeller, Chair; Pridemore, Vice Chair; Fraser, Hatfield, Marr and Ranker.

Minority Report: Do not pass.

Signed by Senators Honeyford, Ranking Minority Member; Delvin, Holmquist and Morton.

Staff: William Bridges (786-7416)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Tom, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Fairley, Hobbs, Honeyford, Keiser, Kline, Kohl-Welles, McDermott, Murray, Parlette, Pflug, Pridemore, Regala, Rockefeller and Schoesler.

Staff: Dianne Criswell (786-7433)

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Background: Semiconductor Cluster Incentives. In 2003 the Legislature enacted a package of tax incentives for manufacturers of certain semiconductor materials. The incentives were contingent upon an investment of at least \$1 billion in a semiconductor microchip fabrication facility in the state. Among other things, the package included (1) a preferential business and occupation (B&O) tax rate of 0.275 percent; (2) sales and use tax exemptions for gases and chemicals used in semiconductor manufacturing; and (3) sales and use tax exemptions for the construction of new semiconductor manufacturing buildings. The contingency criterion was never met.

In 2006 another package of tax incentives was provided for manufacturers of certain semiconductor materials. These incentives were contingent upon an investment of at least \$350 million in new or expanded semiconductor manufacturing facilities in the state. This package included (1) a preferential B&O tax rate of 0.275 percent; and (2) sales and use tax exemptions on the acquisition of gases and chemicals used in the production of semiconductor materials. This contingency was met, and the incentives became effective on December 1, 2006, and will expire on December 1, 2018.

Solar Energy Incentives. In 2005 B&O tax rate reductions were provided for certain types of solar energy manufacturing. The B&O tax rate was lowered to 0.2904 percent for businesses that (1) manufacture or sell at wholesale solar energy systems using photovoltaic modules; or (2) manufacture or sell at wholesale solar grade silicon to be used in the components of a solar energy system. The incentives expire on June 30, 2014.

Summary of Bill (Recommended Amendments): Provides two-year sales and use tax deferral for eligible investment projects in renewable energy manufacturing in a county which is not qualified for the rural county investment project incentives under Ch. 82.60 RCW, does not have a community empowerment zone, and is not one of the three most populous counties in the state. Requirements to claim the deferral include:

- projects must have a minimum investment of \$25 million in construction and machinery and equipment;
- projects must be for renewable energy manufacturing, which includes solar, wind, bioenergy, or geothermal energy systems;
- applications for the two-year deferral must be made prior to initiation of construction;
- deferred taxes need not be repaid if the project continues to be used for renewable energy manufacturing;
- deferral certificates expire on June 30, 2011; and
- persons claiming the deferral must complete an annual survey reporting data.

Provides a credit against the B&O tax for eligible investment projects in renewable energy manufacturing in a county which is not qualified for the rural county investment project incentives under Ch. 82.60 RCW, does not have a community empowerment zone, and is not one of the three most populous counties in the state. Requirements to claim the credit include:

- projects must have a minimum investment of \$25 million in construction and machinery and equipment;
- projects must be for renewable energy manufacturing, which includes solar, wind, bioenergy, or geothermal energy systems;

- credits are based on 15 percent of eligible investment project expenditures (capital investments);
- credits accrue for expenditures occurring after the effective date of the bill and June 30, 2014;
- credits may be not be used before July 1, 2011;
- credits have an annual statewide cap: \$2.5 million for fiscal year 2012, \$2.5 million for fiscal year 2013, \$5 million for fiscal year 2014 and thereafter until the credits expire;
- credits may be carried forward and used until June 30, 2024;
- credits may not exceed the amount of tax due and are not refundable; and
- persons claiming the credit must file a complete annual report.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Amendments): The striking amendment creates a two part incentive program for renewable energy manufacturers: (1) a two-year deferral of sales and use tax for renewable energy manufacturing investment projects; and (2) a B&O tax credit based on 15 percent eligible investment project expenditures accruing until June 30, 2014. The B&O credit may not be claimed until June 30, 2011. The B&O credits have an annual statewide cap, but may be carried forward until expiration on June 30, 2024.

EFFECT OF CHANGES MADE BY ENVIRONMENT, WATER & ENERGY COMMITTEE (Recommended Amendments): Changes the 50 percent B&O credit to the following: (1) a 12.5 percent credit for an investment of at least \$25 million up to \$50 million; and (2) a 25 percent credit for an investment above \$50 million. Changes the \$30 million annual statewide cap on the credit to the following: (1) \$1.5 million for 2009-11 biennium; (2) \$13.5 million for the 2011-13 biennium; and (3) \$30 million for the 2013-15 biennium. Specifies the application process for credits and requires the applications to be processed in accordance with rules adopted by the Department of Community, Trade, and Economic Development in consultation with the Department of Revenue. Specifies which industries qualify for a purchased credit, such as information technology and healthcare or social assistance. Removes wind as an eligible energy system. Names the act "The New Energy Act."

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Second Substitute House Bill (Environment, Water & Energy): PRO: Despite having lower overall business costs than Oregon, and a skilled semiconductor work force, Clark County lost three major solar projects to Oregon worth 1,300 jobs and \$500 million in private investment. Nineteen site selectors have listed Washington on their short lists but the state still loses projects to Oregon because of that state's tax incentives that are paid upfront. This bill will promote the siting of renewable energy manufacturing projects in Washington, which is a long-term growth industry. The

bill will allow a developer to monetize its B&O credit upfront by selling its credits to another company for 70 cents for each dollar of credit. The incentive will generate jobs and increased tax revenues.

Persons Testifying (Environment, Water & Energy): PRO: Representative Probst, prime sponsor; Representative Jacks, sponsor; Amber Carter, Association of Washington Business; Bill Fromhold, Columbia River Economic Development Council; Jerry Smedes, Infinia Corporation; Phil Watkins, Inland Empire Oil Seeds, LLC.

Staff Summary of Public Testimony on EWE Recommended Amended Bill (Ways & Means): PRO: In the national and international economy, renewable energy manufacturing is one of the fastest growing industries. These businesses are creating hundreds of good manufacturing jobs. Many states have already adopted policies to attract these types of firms, and the Obama administration has incentivized this sector in the federal stimulus package. We should enact incentives in this important manufacturing sector in order to provide good employment and growth opportunities for Washington State.

Persons Testifying (Ways & Means): PRO: Representative Probst, prime sponsor